

# *Internal Audit Risk Assessment and Plan 2015/16*

**DRAFT**

**Cherwell District  
Council**

**March 2015**

# Contents

<b>1. Introduction and approach</b>	<b>1</b>
<b>2. Audit universe, corporate objectives and risks</b>	<b>3</b>
<b>3. Risk assessment</b>	<b>4</b>
<b>4. Annual plan and internal audit performance</b>	<b>5</b>
<b>Appendix 1: Innovation</b>	<b>8</b>
<b>Appendix 2: Detailed methodology and risk assessment criteria</b>	<b>11</b>
<b>Appendix 3: Key performance indicators</b>	<b>14</b>

## **Distribution List**

Joint Management Team

Members of the Accounts, Audit and Risk Committee

This document has been prepared only for Cherwell District Council and solely for the purpose and on the terms agreed with Cherwell District Council.

# 1. Introduction and approach

## Introduction

This document sets out the initial risk assessment and our internal audit plan for Cherwell District Council for 2015/16. We will take a final plan to the June committee following the finalisation of our 2014/15 plan reviews and further planning meetings with key management team members.

## Approach

The internal audit service will be delivered in accordance with the Internal Audit Charter. A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by Cherwell District Council's organisational objectives and priorities, and the risks that may prevent Cherwell District Council from meeting those objectives. A more detailed description of our approach can be found in Appendix 1 and 2.

*Step 1*  
*Understand corporate objectives and risks*

- Obtain information and utilise sector knowledge to identify corporate level objectives and risks.

*Step 2*  
*Define the audit universe*

- Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.

*Step 3*  
*Assess the inherent risk*

- Assess the inherent risk of each auditable unit based on impact and likelihood criteria.

*Step 4*  
*Assess the strength of the control environment*

- Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.

*Step 5*  
*Calculate the audit requirement rating*

- Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.

*Step 6*  
*Determine the audit plan*

- Determine the timing and scope of audit work based on the organisation's risk appetite.

*Step 7*  
*Other considerations*

- Consider additional audit requirements to those identified from the risk assessment process.

## *Basis of our plan*

In order to carry out the level of work that our risk assessment indicates is appropriate, we estimate that the resource requirement for Cherwell District Council's internal audit service is 123 days and £47,355. Based on our risk assessment, this is the level of resource that we believe would be necessary to evaluate the effectiveness of risk management, control and governance processes. The level of agreed resources for the internal audit service for Cherwell District Council is 123 days and £47,355, and therefore the plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources and in approving the risk assessment and internal audit plan, the Accounts, Audit and Risk Committee recognises this limitation.

## *Basis of our annual internal audit conclusion*

Internal audit work will be performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our final individual internal audit reports.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion\*.

## *Other sources of assurance*

In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. Other sources of assurance for each auditable unit are noted in our Risk Assessment in section 3 of this document, and a summary is given below.

Some of the other sources of assurance for Cherwell District Council are as follows:

- external inspections;
- external audit work; and
- ISO accreditations.

We do not intend to place reliance upon these other sources of assurance.

## *Key contacts*

<i>Name, Job Title</i>	<i>Name, Job Title</i>	<i>Name, Job Title</i>
Sue Smith, Chief Executive	Ian Davies, Director of Community and Environment	Calvin Bell, Director of Development
Karen Curtin, Director of Bicester	Martin Henry, Director of Resources (S151 Officer)	Paul Sutton, Head of Finance and Procurement
Jo Pitman, Head of Transformation		

## 2. Audit universe, corporate objectives and risks

### Audit universe

We have identified the auditable units within the Council based on your structure and meetings with officers and members. Any processes running across a number of different elements in the Council and which can be audited once have been separately identified under cross-cutting reviews in the audit universe.

### Corporate objectives and risks

Corporate level objectives and risks have been determined by Cherwell District Council. These are recorded in the table below and have been considered when preparing the internal audit plan.

We have also reviewed your corporate risks register and linked all high risks scoring net in excess of 10 points to our audit plan as follows:

Objective	Risk(s) to achievement of objective	Cross reference to Internal Audit Plan (see Section 4)
A District of opportunity	S14: CDC Local Plan: Failure to ensure sound local plan and priorities linked to objectives.	B1, B4 and B5 VE1 and VE2
A Cleaner, Greener District	S15: CDC Local Plan, County SHMA: Risk of additional housing requirements from Oxford  C1 – Business Continuity: Plans not in place to deliver in event of incident: reputational and service failure	B1, B4 and B5 VE1 and VE2
A Safe, Healthy and Thriving District	C7 – Joint Working: Reputational damage, service and financial performance decline.	B1, B4 and B5 VE1 and VE2
An accessible, Value for Money Council	C9 – Equalities: Failure to comply with legislation, reputational damage and legal risk.  C10 – Health and Safety: Failure to comply with legislation, reputational damage and legal risk.  C12 – CDC Planning (Major Applications): failure to meet panning inspectorate threshold and subject to special measures  P5 – Oxfordshire LEP and P8 – South Midlands LEP: Partnership doesn't work and fails to add value and align with objectives.	A.1 to A.3 All Cross Cutting Sections B1, B2, B5 and B6 VE1 and VE2

## 3. Risk assessment

### *Risk assessment results*

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below.

Ref	Auditable Unit	Corporate objectives and risks	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating
<b>A</b>	<b>Corporate / Cross Cutting Reviews</b>				
A.1	General Ledger **	An accessible Value for Money Council	6	4	4
A.2	Debtors **		5	4	4
A.3	Creditors **		5	4	4
A.4	Payroll		6	5	4
A.6	Collection Fund		6	4	4
A.7	Cashiers		4	3	3
A.9	Housing Benefits		6	4	4
A.13	Risk Management **		5	3	4
A.14	Information Technology **		6	4	4
<b>B</b>	<b>Department</b>				
B.3	Finance and Procurement **	An accessible, value for money Council	5	3	4
B.2	Environmental Services	A cleaner, greener District	5	3	4
B.4	Law and Governance	A safe, healthy and thriving district.	4	3	3
B.6	Strategic Planning and the Economy	A cleaner, greener District A District of opportunity	5	3	4
B.7	Regeneration and Housing	A safe, healthy and thriving district; and A District of opportunity.	5	3	4
B.10	Programme Management **	An accessible, value for money Council	6	3	5

# 4. Annual plan and internal audit performance

## Annual plan and indicative timeline

The following table sets out our internal audit work planned for 1 April 2015 to 31 March 2016, together with indicative start dates for each audit.

See appendix 1 for the areas where we can add the most value and innovative ways of working over the annual plan year

Ref	Auditable Unit Points of Focus	Q1	Q2	Q3	Q4	Comments
<b>A</b>	<b>Corporate systems / Cross Cutting Reviews</b>					
A.1	<b>Finance Systems</b> <b>To cover the following on risk basis</b> <ul style="list-style-type: none"> <li>• General Ledger</li> <li>• Payroll</li> <li>• Collection Fund (Council Tax and NNDR)</li> <li>• Housing Benefits</li> <li>• Debtors</li> <li>• Creditors</li> <li>• Cashiers</li> </ul>			✓		We will direct our data team specialists to deliver more effective and efficient outputs and assurance over your key financial cycles.  Appendix A
<b>B</b>	<b>Department</b>					
B.1	<b>Programme Management</b> Ongoing support to consider programme management and key ways of working on major programmes across the council, to be agreed during the plan year. Key projects include: <ul style="list-style-type: none"> <li>• Graven Hill</li> <li>• Bicester Town Centre Redevelopment</li> <li>• Build Programme</li> </ul>	✓	✓	✓	✓	We will direct our project and commercial assurance specialists to your key areas of risk for major projects and third party relationships.  Appendix A
B.2	<b>Risk Management/Governance</b> Review the adequacy of risk management arrangements within the Council and we will provide you with a view on your Joint Risk Management arrangements.				✓	
B.3	<b>IT</b> <b>General Controls</b> Review controls around key controls on selected systems  <b>System Reviews</b> We can help support or review around key system changes from a variety of aspects including: system configuration, application and database controls and reporting configurations.	✓		✓		We will direct our data team specialists to deliver more effective and efficient outputs over your IT and data environments  Appendix A

	<b>Cyber Security</b> We view cyber security through a series of interconnected lenses. This rounded approach is designed to provide you with confidence: in your people, technology and connections, how you manage risk, set priorities and respond to an incident or during a crisis. Our approach typically begins with an assessment of your current capability and a recommendation of areas for improvement.					
B.5	<b>Service Redesign / Compliance Reviews</b> To review current service plans and operational design and arrangements to benchmark performance on selected service.  <ul style="list-style-type: none"> <li>• Planning and the Economy</li> <li>• Regeneration and Housing</li> <li>• Environmental Services</li> </ul>		✓		✓	We undertake review(s) within council services / departments dependent on our annual risk assessment.  We will review compliance over planning applications which had been deferred from the 2014/15 plan agreed with management.
B.6	<b>Finance Year End Support</b> To support you at year end. This support will include a critical review of your draft accounts, accountancy support and attendance at your close down group.					This is directed by areas of support required for your annual statement of accounts.
<b>VE</b>	<b>Value Enhancement</b>					
VE.1	<b>Joint Working and Transformation Programme</b> Review of the governance and business cases for efficiencies and savings for three way working.  <ul style="list-style-type: none"> <li>• Governance Models</li> <li>• New Ways of Working</li> </ul>		✓		✓	We will utilise where appropriate our data and project specialists to align to your key risks and gaps in assurance through ongoing dialogue with management.
<b>PM</b>	<b>Project management</b>					
PM.1	Project management	✓	✓	✓	✓	
PM.2	Contingency					We aim to have an element of contingency in each plan to respond to any emerging risks in each plan year.
	<b>Total Cost</b>		<b>£47,355</b>			

In addition to these services, we will provide a range of benefits to the Council at no additional cost which include:

- Regular technical updates and alerts from PwC Assurance on topics including accounting changes and new legislation;
- Circulation of recent publications by PwC and PwC's Public Sector Research Institute plus ad hoc reports;
- Provision of thought leadership pieces;
- Ad hoc briefings for the Audit Committee (e.g. risk management and local government finance); and
- An invitation for the Chair of Audit Committee and officers to attend our local training days



## *Key performance indicators*

Appendix 3 sets out the proposed Key Performance Indicators for internal audit. Performance against these indicators will be reported annually to the Accounts, Audit and Risk Committee.

# Appendix 1: Innovation

## Examples of innovation for the 2015/16 annual plan years

### 1. Use of data specialists and data analytics

We will work with management to explore more efficient techniques to validate and assure your key financial systems and transactions. We can provide greater population coverage (rather than sample assurance) depending on how your systems and transactions are set up and recorded.

We can use our data team to respond to some of the key data challenges you face especially key where the council is going through change and transformation programmes. Key challenges where we can provide support and input are:

#### Data governance and quality

- How are you managing and controlling your data as a core asset?
- Who is currently in control of your data assets and processes – is it really the right approach in the current economic climate?

Giving you clear advice and assurance on how to manage your data through:

- Data governance, controls and reporting best practice
- Data quality assessments and data profiling
- Process improvement
- Process and controls review and design
- Data strategy reviews or creation
- Independent, client-side technical assurance

#### Data analysis and reporting

- Are your decisions based on the right inputs and interpretations – what happens if they aren't?
- Can you improve what your organisation does without having a clear understanding of how your organisation works – everything relies on data

Providing accurate and clear insight with timely analysis and robust interpretation through:

- Expert data analysis and interpretation
- Financial and non-financial audits
- Computer Assisted Auditing Techniques (CAATs)
- Controls reviews and process re-performance
- Journal testing and reporting

#### Data migration and transformation

- How do you deliver new capabilities with minimal disruption and cost
- Data is on many projects' 'critical paths' – Can you afford to get it wrong or be the cause of delays?
- Ensuring data migrations focus on business needs, not just technical delivery

Managing/reviewing migration projects to focus on business and project needs through:

- Design, execution and review of migration strategies and plans
- Practical business focused advice
- Client-side data migration management

#### Data collection and reporting

- Being able to collect, share and report on data quickly and securely is becoming increasingly important as organisations need accurate and cost effective data collection solutions

Reducing the data collection and hosting burden across your enterprise through:

- Creation, hosting and delivery of collaborative web tools and applications
- 'Management Information' report development
- Automation of complex, data collection and data management processes
- Creation, hosting and delivery of collaborative portals and data hubs

#### Data security and effective handling

- *Do you really understand where your data is and who has access to it - can you afford to lose your client's data, your own intellectual property or other privileged information?*

*Making your data asset work for you securely through:*

- *Information management assurance to help you make the 'right' decisions based on the 'right' data*
- *Information assurance and security advice*
- *Data loss prevention techniques reviews*
- *Post-event management and remediation*
- *Legal and compliance advice*

## **2. Increased use of project and contract management specialists**

Given the continued focus on efficiency savings and councils looking at new and innovative ways of working we can further align our internal audit specialists to focus on the areas of your most significant risk, projects and contract management.

### **Projects Assurance**

On average a quarter of all major change programmes fail completely while around three quarters under deliver. We provide insightful, independent and informed advice to a broad spectrum of clients in order to reduce the risk of project failure and increase business value. We provide quality assurance through the entire life cycle of change, from project identification through to and final delivery. We have experience across a broad range of projects and sectors, including capital intensive construction, business change and IT as well as access to the firm's global network of specialists.

We can help clients achieve the right outcomes from their projects and change programmes by;

- Reviewing projects along their life-cycle to identify risks and make recommendations on how to address them
- Reviewing project portfolios to help prioritise projects based on strategic objectives and delivery capabilities.
- Ensuring projects support the business strategy. We helped a UK construction company define its IT strategy and identify and deliver the IT change roadmap
- Reviewing whether the business case will deliver the desired results. We helped a telecoms company review the costs and projected benefits of its finance consolidation programme resulting in a re-focusing on the core objectives
- Helping you get the most from your third parties. We helped a global financial services company take significant costs out of its outsourced contract to deliver a portfolio of IT projects
- Assessing the project management process. We helped a financial services company determine where it stood in a project management maturity model and what its priorities and next steps should be.

### **Contracts / Commercial assurance**

The scope and complexity of third party relationships have continued to increase as companies outsource, build capital projects, enter into joint ventures and invest abroad. However, the approach to contracting remains the same as it was many decades ago. Reliance on a legal contract is insufficient when value is lost, risk is increased and service is compromised through poor relationships, contracts and management.

Complex strategic relationship management requires a holistic approach, integrating compliance and risk and performance management into the contract tendering and drafting process, as well as embedding the right behaviours and controls, so that the risk is mitigated and the contract delivers. As we have seen time and time again, poor third party relationships and contract management can result in very material losses and a loss of reputation. Conversely those who manage their third party relationships well can find they can build real value and competitive advantage.

We help clients set up, improve and exit from their complex third party relationships, as well as ensure they are compliant. Our engagements show that there are significant financial and operational benefits from a structured approach to managing their most critical third party relationships.

We provide expertise, have developed tools and diagnostics and can source and configure technology to help organisations transform their approach to manage their major third parties with sustainable bottom line results.

# Appendix 2: Detailed methodology and risk assessment criteria

## Methodology

### Step 1 -Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy, organisational structure and corporate risk register;
- Drawn on our knowledge of the local government sector; and
- Met with a number senior management and non-executive members.

### Step 2 -Define the Audit Universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for South Northamptonshire Council made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

### Step 3 -Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and its sector; and
- Discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

### Step 4 -Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits.

### *Step 5 - Calculate the audit requirement rating*

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

### *Step 6 - Determine the audit plan*

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-process (es) within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

### *Step 7 - Other considerations*

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

## *Risk assessment criteria*

### *Determination of Inherent Risk*

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

<i>Impact rating</i>	<i>Assessment rationale</i>
6	Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability.

5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

<i>Likelihood rating</i>	<i>Assessment rationale</i>
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

# Appendix 3: Key performance indicators

## Key performance indicators

To ensure your internal audit service is accountable to the Audit Committee and management, we have proposed the following key performance indicators.

<i>KPI</i>	<i>Target</i>	<i>Comments</i>
<b>Infrastructure</b>		
Audits budgeted v actual	+/- 10 plan days with management agreement	We expect to deliver the annual plan with tolerance of 10 days with agreement of management
<b>Planning</b>		
% of audits with Terms of Reference	100%	
<b>Fieldwork</b>		
Average of cost of an audit	NA	We will provide the audit service for £47,355 fee but without being tied to fixed daily rates.  Additional work and fees will be agreed separately as required.
<b>Reporting</b>		
Draft reports issues promptly	Within 3 weeks of completion of the audit site work.	
Attendance at Audit Committee	100%	
<b>Relationships</b>		
Overall client satisfaction score	8/10	





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